

Message Text

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C O N F I D E N T I A L ZAGREB 438

PASS EXIMBANK

EXIMBANK FOR ALBRIGHT

E.O. 11652: GDS
TAGS: EFIN, ETRD, YO
SUBJECT: NEW YUGOSLAV FOREIGN TRADE BANK

1. SUMMARY. TWO YUGOSLAV ECONOMISTS SAY THAT A NEW ORGANIZATION WHICH WILL ACT AS A "HOLDING COMPANY" FOR FOREIGN TRADE WILL BE ESTABLISHED WITHIN THE NEXT SEVERAL MONTHS. FOUR DIFFERENT DRAFTS OF THE PROPOSED LEGISLATION ARE CURRENTLY BEING CIRCULATED, AND NUMEROUS DETAILS REMAIN TO BE RESOLVED. THE NEW BANK WILL BE AUTONOMOUS, ALTHOUGH SUBJECT TO GOVERNMENT REGULATION, AND WILL BE EMPOWERED TO ISSUE FOREIGN EXCHANGE GUARANTEES TO FOREIGN LENDERS. IT MAY ALSO PERMIT SOME FOREIGN PARTICIPATION.
END SUMMARY

2. IN AN EXTENSIVE DISCUSSION OF YUGOSLAV AND FOREIGN BANKING WITH VISITING EXIM BOARD MEMBER DE SAINT PHALLE, YUGOSLAV DESK OFFICER JOHNSON AND CG AT MAY 16 DINNER, DR. ANTE CICINSAIN, PROFESSOR OF FOREIGN TRADE AND ADVISER TO THE NARODNA BANKA OF CROATIA, AND DR. DRAGOMIR VOJNIC, DIRECTOR OF THE
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ZAGREB ECONOMIC INSTITUTE, SAID THAT A NEW YUGOSLAV BANK FOR FOREIGN TRADE WOULD SOON BE ESTABLISHED WHICH WOULD BE RESPONSIBLE FOR NEARLY ALL OF YUGOSLAVIA'S FOREIGN EXCHANGE TRANSACTIONS. AS THEY DESCRIBED IT, THIS NEW INSTITUTION WOULD TAKE OVER THE CURRENT FOREIGN EXCHANGE FUNCTIONS OF THE YUGOSLAV COMMERCIAL BANKS AND WOULD ACT ON BEHALF OF THOSE INSTITUTIONS IN FOREIGN EXCHANGE TRANSACTIONS. THE NEAREST

ENGLISH TERM THEY COULD FIND TO DESCRIBE IT WAS AS A KIND OF HOLDING COMPANY. IT WOULD NOT BE ADMINISTERED BY THE GOVERNMENT BUT WOULD HAVE TO MEET CERTAIN CLEAR REQUIREMENTS, AND ONE OR MORE PERSONS FROM THE MINISTRY OF FINANCE WOULD BE MEMBERS OF THE BANK'S ADMINISTRATIVE BODY. THIS NEW INSTITUTION WOULD BE AUTHORIZED BY THE YUGOSLAV GOVERNMENT TO ISSUE GUARANTEES TO FOREIGN CREDITORS, INCLUDING SPECIFICALLY THE U.S. EXIMBANK, THE WORLD BANK AND OTHERS.

3. MANY OF THE DETAILS REMAIN TO BE RESOLVED, AND SOME OF THE PROVISIONS OF THE FOUR DRAFT LEGISLATIVE PROPOSALS ARE CONTRADICTORY. IT IS ANTICIPATED, HOWEVER, THAT THE NECESSARY LEGISLATION CAN BE DISCUSSED AND POSSIBLY PASSED LATER THIS YEAR, THUS ENABLING THE NEW INSTITUTION TO BE ESTABLISHED BY THE END OF THIS YEAR OR EARLY NEXT YEAR.

4. ONE KEY FACTOR WHICH HAS NOT BEEN RESOLVED IS WHETHER OR TO WHAT EXTENT TO PERMIT FOREIGN PARTICIPATION IN THE NEW BANK. CICIN-SAIN SAID THE QUESTION IS DIFFERENT FROM THOSE COVERED BY THE NEW LAW ON JOINT VENTURES. THERE ARE THOSE WHO ARGUE THAT YUGOSLAVIA SHOULD SEEK TO ATTRACT FOREIGN CAPITAL, ESPECIALLY PETRO-DOLLARS, AND THAT YUGOSLAVIA WOULD BE AN ATTRACTIVE TARGET FOR SUCH INVESTMENTS. BUT THERE ARE OTHERS WHO ARGUE THAT YUGOSLAVIA SHOULD NOT SUBJECT ITSELF TO THE WHIMS OF FOREIGN INVESTORS. THE RESULT, CICIN-SAIN SUGGESTED, WOULD BE A COMPROMISE WHICH PERMITTED SOME FOREIGN INVESTMENT, BUT WHICH

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CLEARLY MAINTAINED ULTIMATE DECISION-MAKING AUTHORITY IN THE HANDS OF THE YUGOSLAV DIRECTORS.

5. COMMENT: THIS IS A MORE DETAILED DESCRIPTION OF THE PROJECTED NEW BANKING INSTITUTION THAN WE HAVE HEARD PREVIOUSLY. IT SEEMS TO ADD TO COMMENTS MADE EARLIER BY YUGOSLAVS IN BELGRADE AND WASHINGTON ABOUT THEIR APPROACH TO THE EXIMBANK GUARANTEE QUESTION, AND TO IMPLY AN EFFORT TO STRENGTHEN CENTRALIZED CONTROL OVER FOREIGN EXCHANGE. BUT DESPITE THE REFERENCES TO LEGISLATION TAKING EFFECT LATER THIS YEAR, THE CLEAR IMPLICATION WAS THAT SOME MAJOR ISSUES REMAIN UNRESOLVED AND THIS TIMETABLE MAY BE OPTIMISTIC. KAISER

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